

STATE CONTROLLER'S OFFICE  
PERSONNEL/PAYROLL SERVICES DIVISION  
P. O. BOX 942850  
Sacramento, CA 94250-5878

DATE: July 12, 2005

PERSONNEL LETTER #05-003

TO: All Agencies/Campuses in the Uniform State Payroll System

FROM: JOHN R. HARRIGAN, Chief  
Personnel/Payroll Services Division

RE: **INTERNAL REVENUE SERVICE "LOCK-IN" LETTER PROCEDURE CHANGES**

This Personnel Letter supercedes Personnel Letter #03-020.

The Internal Revenue Service (IRS) has changed the procedures and deadlines for processing lock-in determination letters effective April 14, 2005. The new procedures will allow employees the time to reconcile their tax filing status and withholding allowances with the IRS before a lock is established.

A lock-in determination letter results when the IRS determines that the amount of income tax withheld from the employee's pay will not adequately cover the employee's tax liability as required by IRS Code Section 3402.

The lock-in determination letter mandates the federal marital filing status and maximum number of total allowances that can be claimed by the employee. IRS, via the lock-in determination letter, requires the employer to initiate and maintain the corrective measure until otherwise instructed in writing by the IRS.

The new IRS practice is to send an employer lock-in letter to the State Controller's Office with the employee's lock-in letter and related attachments. The State Controller's Office will forward the entire package to the employing agency or campus. It is the agency or campus's responsibility to forward the employee's lock-in letter to the employee immediately. The employee has 30 calendar days from the date of the employee's lock-in letter to contact the IRS regarding her/his tax status. The IRS contact information is contained in the employee's lock-in letter.

If the employee is no longer employed with your agency/campus, please forward the entire IRS Lock-In Letter transmittal package to the employee's new employing agency/campus. If the employee has separated from state service, notify the IRS in writing that the employee no longer is employed by the State of California.

PPSD Personnel Operations will process the lock-in 60 calendar days after the date of the lock-in letter. When an IRS mandated lock-in has been keyed by PPCS, the only authorized changes are those which result in an equal or greater withholding amount than the amount generated by the locked-in values.

You may not accept a new EAR or SPAR if your employee is claiming exempt status or a filing status and allowances that result in a withholding amount that is less than the amount generated by the status and allowances displayed in the “LOCK” field. EAR inquiry and update screens will display “00” in this field if there is no lock in place.

The automated lock-in process prevents changes not authorized by the IRS. If the EAR “LOCK” field has been updated to an IRS mandated single and zero allowances (S 00), attempts by agencies and campuses to update the federal filing status (“MARITAL”) or number of allowances (“TOTAL”) will result in the audit message “EAR-04 IRS LOCK IN EFFECT”. It will not be possible to change the employee’s federal filling status or number of allowances.

If the “LOCK” field has been updated to an IRS mandated value other than single and zero allowances (not S 00), attempts by agencies and campuses to update the federal filing status (“MARITAL”) or number of allowances (“TOTAL”) will result in the audit message “EAR-07 IRS LOCK IN EFFECT - VERIFY CHANGES COMPLY WITH IRS LOCK-IN LETTER”. The audit message can be overridden by keying a “C” in OPERATOR CODE to process the transaction. However, this should be done only after verification that the changes would result in an equal or higher withholding amount.

SPAR transactions processed for an employee with an IRS lock-in will update the marital status and total allowances on the employee’s record. However, the SPAR exception listing will show the employee’s name, SSN, and the error message “IRS LOCK”. These records should be verified and corrected as necessary.

There is an online paycheck calculator available on the State Controller’s Office website at <http://www.sco.ca.gov/ppsd/empinfo/calc/paycalc.shtml> that can assist you with tax calculations. Please be sure to use the appropriate version for the current tax year.

An employer’s failure to comply with a lock-in determination poses significant consequences. The employer is subject to civil and criminal penalties per IRC 6672 and IRC 7202. Compliance penalties may include the employer paying all taxes due, felony conviction with up to five years imprisonment, and personal fines up to \$10,000 per occurrence plus payment for the costs of prosecution.

A PAM revision will be provided in the near future with the IRS Lock procedures.

If you have questions regarding the EAR Lock update process, please contact Donna Collins at 916-322-8141.

JRH:JB:PMAB